

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application ) DOCKET NO. 06-035-163  
Of Rocky Mountain Power for )  
A Deferred Accounting Order )  
To Defer the Costs of Loans )  
Made to Grid West )

In the Matter of the Application ) DOCKET NO. 07-035-04  
Of Rocky Mountain Power for )  
An Accounting Order To Defer )  
The Costs Related to the )  
MidAmerican Energy Holdings )  
Company Transaction )

In the Matter of the Application ) DOCKET NO. 07-035-14  
Of Rocky Mountain Power for )  
An Accounting Order for Costs )  
Related to the Flooding of the )  
Powerdale Hydro Facility )

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TESTIMONY OF  
DONNA DERONNE  
FOR THE COMMITTEE OF  
CONSUMER SERVICES

September 10, 2007

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1        **INTRODUCTION**

2        **Q.     WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

3        A.     My name is Donna DeRonne. I am a Certified Public Accountant licensed  
4               in the State of Michigan and a senior regulatory analyst at Larkin &  
5               Associates, PLLC, Certified Public Accountants, with offices at 15728  
6               Farmington Road, Livonia, Michigan 48154.

7  
8        **Q.     PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

9        A.     Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm  
10              performs independent regulatory consulting primarily for public  
11              service/utility commission staffs and consumer interest groups (public  
12              counsels, public advocates, consumer counsels, attorneys general, etc.).  
13              Larkin & Associates, PLLC has extensive experience in the utility  
14              regulatory field as expert witnesses in over 600 regulatory proceedings,  
15              including numerous electric, water and wastewater, gas and telephone  
16              utility cases.

17  
18       **Q.     HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR**  
19       **QUALIFICATIONS AND EXPERIENCE?**

20       A.     Yes. I have attached Appendix I, which is a summary of my regulatory  
21              experience and qualifications.

22

23

24 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

25 A. Larkin & Associates, PLLC, was retained by the Utah Committee of  
26 Consumer Services (Committee) to review Rocky Mountain Power's (RMP  
27 or the Company) applications for deferred accounting orders for costs of  
28 loans made to Grid West, costs related to the MidAmerican Energy  
29 Holdings Company transaction, and costs related to the flooding of the  
30 Powerdale Hydro facility. Accordingly, I am appearing on behalf of the  
31 Committee.

32

33 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

34 A. My testimony first addresses the accounting requirements associated with  
35 the deferral of regulatory assets. I then address some of the statements  
36 made in RMP witness Jeffrey K. Larsen's direct testimony filed in these  
37 proceedings on August 8, 2007 regarding deferred accounting treatment  
38 and the establishment of regulatory assets. I also address the  
39 Committee's positions regarding the Company's requested deferred  
40 accounting orders.

41

42 **Q. ARE ANY ADDITIONAL WITNESSES PRESENTING TESTIMONY ON**  
43 **BEHALF OF THE COMMITTEE WITH REGARDS TO THE THREE**  
44 **REQUESTS FOR ACCOUNTING ORDERS?**

45 A. Yes. Committee witness Cheryl Murray addresses several policy issues  
46 relating to Rocky Mountain Power's requests.

47

48 **Q. HAVE THE PARTIES IN THIS PROCEEDING PREVIOUSLY BEEN**  
49 **MADE AWARE OF THE COMMITTEE'S POSITIONS REGARDING THE**  
50 **COMPANY'S ACCOUNTING ORDER REQUESTS?**

51 A. Yes. It is my understanding that the parties have been provided  
52 memorandums prepared by the Committee containing its positions and  
53 recommendations on each of the three requests for Accounting Orders.  
54 These positions, which will be summarized later in this testimony, continue  
55 to be supported by the Committee.

56

57 **ACCOUNTING REQUIREMENTS FOR REGULATORY ASSETS**

58 **Q. THE COMPANY HAS REQUESTED PERMISSION TO DEFER CERTAIN**  
59 **COSTS RELATED TO LOANS MADE TO GRID WEST AND**  
60 **SEVERANCE COSTS AS REGULATORY ASSETS FOR FUTURE**  
61 **RECOVERY FROM CUSTOMERS. ARE THERE ANY SPECIFIC**  
62 **PROVISIONS UNDER GENERALLY ACCEPTED ACCOUNTING**  
63 **PRINCIPLES THAT ALLOW FOR THE DEFERRAL OF REGULATORY**  
64 **ASSETS?**

65 A. Yes. Financial Accounting Standards No. 71 – Accounting for the Effects  
66 of Certain Types of Regulation - allows regulated entities to establish an  
67 asset (i.e., regulatory asset) on their books for certain types of costs that  
68 would otherwise be required to be expensed in the current period if certain  
69 criteria are met. FAS 71 also allows regulated entities to establish

liabilities (i.e., regulatory liabilities) on their books if certain criteria are met. FAS 71 acknowledges that regulatory agencies, such as the Utah Public Service Commission (Commission), will at times allow for the recovery of costs in a period other than the period in which the cost was incurred or would ordinarily be required to be charged to expense under Generally Accepted Accounting Principles (GAAP). Under the pronouncement, if the criteria contained in the statement are met, regulated entities may establish assets on their books for costs to be recovered from customers in a future period(s) or liabilities for amounts to be returned to customers in a future period(s). These are typically referred to as regulatory assets or regulatory liabilities.

**Q. WHAT IS THE CRITERIA UNDER FAS 71 FOR THE ESTABLISHMENT OF A REGULATORY ASSET?**

A. Paragraph 9 of FAS 71 specifically states as follows:

9. Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:

- a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from the inclusion of that cost in allowable costs for ratemaking purposes.
- b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

100 Under FAS 71, future revenue at least equal to the amount being deferred  
101 must be probable and the future revenue must be tied specifically to the  
102 item being deferred as an asset. In addressing the definition of the term  
103 “probable”, a footnote to FAS 71 indicates that the term probable is its  
104 “usual general meaning” and cites the definition in Webster’s New World  
105 Dictionary of the American Language, indicating it “...refers to that which  
106 can reasonably be expected or believed on the basis of available evidence  
107 or logic but is neither certain nor proved.”

108

109 **Q. DOES FAS 71 ALSO PROVIDE FOR THE ESTABLISHMENT OF A**  
110 **REGULATORY LIABILITY?**

111 A. Paragraph 11 of FAS 71 addresses the imposition of liabilities on  
112 regulated enterprises and the establishment of the liability on the entity’s  
113 books.

114

115 **Q. IN HIS TESTIMONY, RMP WITNESS JEFFREY K. LARSEN**  
116 **ADDRESSES THE FEDERAL ENERGY REGULATORY COMMISSION**  
117 **(FERC) UNIFORM SYSTEM OF ACCOUNTS (USOA) AS IT PERTAINS**  
118 **TO REGULATORY ASSETS AND LIABILITIES. WHAT INFORMATION**  
119 **SPECIFIC TO THE USOA AND DEFERRED ASSETS DOES MR.**  
120 **LARSEN PROVIDE?**

121 A. Beginning at page 3 of his testimony, Mr. Larsen provides the definition of  
122 regulatory assets from the USOA, which is as follows:

Regulatory Assets and Liabilities are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable:

- A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or
- B. in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required.

18CFR 101, Uniform System of Accounts, Definition No. 30.

**Q. DOES THE USOA PROVIDE FURTHER GUIDANCE WITH REGARDS TO REGULATORY ASSETS BEYOND THE DEFINITION CITED BY MR. LARSEN?**

- A. Yes. In addressing FERC Account 182.3 – Other regulatory assets, the USOA indicates that the account will include regulatory-created assets not includable in other accounts and references the above presented definition of regulatory assets and liabilities. Under the description of Account 182.3, the USOA also provides for the following:

The amounts included in this account are to be established by those charges which would have been included in net income determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans, or rate levelization plans, Account 407.4, Regulatory Credits shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of Account 407.4 shall be charged to Account 407.3, Regulatory Debits, concurrent with the recovery of the amounts in rates.



161

162       The description of Account 182.3 also provides that if recovery of all or a  
163       portion of an amount included in the account is disallowed, the amount  
164       disallowed should be written off to Account 426.5 – Other Deductions, or  
165       Account 435 – Extraordinary Deductions in the year the disallowance is  
166       determined.

167

168   **Q.   PLEASE PROVIDE YOUR UNDERSTANDING OF THE SCOPE OF THE**  
169       **COMPANY’S REQUESTS FOR DEFERRED ACCOUNTING IN THESE**  
170       **DOCKETS.**

171   A.   In RMP’s Statement of Position on its Pending Applications for Deferred  
172       Accounting Treatment dated May 3, 2007, when addressing the scope of  
173       review in its discussion of Grid West’s default on loans, the Company  
174       states that it “...did not request a determination of ratemaking treatment,  
175       whether the costs are appropriate for inclusion in rates, or a determination  
176       of the amortization period.” The Company indicates that the scope of the  
177       review should be “...simply whether the Company can establish a  
178       regulatory asset in Account 182.3, thus preserving the Company’s  
179       opportunity to request inclusion of this particular expense in its revenue  
180       requirement at the time of the Company’s next general rate case.” In the  
181       section of the Statement of Position pertaining to the Transition Costs, the  
182       Company makes similar statements regarding the transition costs that  
183       were not included in the prior rate case, Docket 06-035-21.

184

185 **Q. DOES THIS MEET THE CRITERIA FOR THE ESTABLISHMENT OF AN**  
186 **ASSET UNDER FAS 71 OR FOR THE ESTABLISHMENT OF A**  
187 **REGULATORY ASSET UNDER THE FERC USOA?**

188 A. In my opinion it does not. Under FAS 71, prior to establishing an asset for  
189 costs that would otherwise be charged to expense in a different  
190 accounting period, there has to be reasonable assurance that it is  
191 **probable** that the regulator will allow the costs to be recovered in the  
192 future. Additionally, the FERC USOA clearly indicates that regulatory  
193 assets result from the action of regulatory agencies and that it be  
194 **probable** the items under review will be included in different periods in  
195 developing rates the utility is authorized to charge. Thus, in order for an  
196 item to qualify as a regulatory asset under GAAP and under the FERC  
197 USOA, it must be probable that the Commission will allow for the recovery  
198 of the specific costs being deferred in rates in future periods.

199

200 Regarding the requests for accounting orders for the Grid West loan costs  
201 and the severance costs, the Committee is challenging the  
202 appropriateness of the establishment of regulatory assets and inclusion of  
203 the costs in future rates.

204

205 **Q. IS IT TYPICAL FOR COMMISSIONS TO GRANT A UTILITY'S**  
206 **REQUEST TO DEFER COSTS FOR CONSIDERATION IN A FUTURE**

**RATE PROCEEDING WITHOUT ALSO MAKING A DETERMINATION  
REGARDING THE RECOVERABILITY OF SUCH COSTS OR  
RESOLVING THE AMOUNT TO ULTIMATELY BE RECOVERED IN  
RATES?**

A. Often in approving a request for an accounting order to defer costs for future consideration, the Order approving the deferral will indicate that the Commission is not yet making a determination of recoverability or the amount to ultimately be recovered in rates and that such deferrals are subject to future review. However, the approval and establishment of a regulatory asset should not be taken lightly by a commission. If there are significant issues regarding whether or not the costs are appropriate for consideration in future rates, the Commission should not grant the request with the intention that a decision regarding the treatment of such costs is being deferred. The Commission has the ability to deny the request for deferral. Although the Company indicates that it is not seeking approval for inclusion of the costs in rates, the whole purpose of requesting the deferral is to preserve the right to make its case in the future.

Timing

**Q. DO YOU HAVE ANY CONCERNS WITH THE TIMING OF THE  
COMPANY'S REQUESTS FOR THE ESTABLISHMENT OF  
REGULATORY ASSETS IN THESE CASES?**

A. Yes. Under GAAP, the Company should have already written-off the Grid West loans prior to the current fiscal year, which is the year ending

December 31, 2007. Additionally, under GAAP, the Company should have already expensed many of the severance costs in 2006 when the amounts became known and certain. The Company's requests to now establish regulatory assets for the Grid West loan costs and severance costs are untimely.

**Q. WHY IS THE COMPANY'S REQUEST TO ESTABLISH THE REGULATORY ASSET FOR THE GRID WEST LOAN COSTS UNTIMELY?**

A. The Company was notified in April 2006 that Grid West would default on its loan. However, prior to that date the Company was aware that default was likely and filed deferred accounting applications for the Grid West loan costs in several other states during the week of March 23, 2006. The Company did not request a deferred accounting order in Utah at that time and did not update its general rate case, which was filed in March 2006, to include the loan default costs. The Company did not seek permission to defer the loan costs as a regulatory asset in Utah until December 19, 2006, almost ten months after filing the requests in other states and after the rate case settlement was approved in Utah. Given the December 19, 2006 filing date, the Company would not have had assurance from the Commission regarding the probability of future recovery in rates of the costs prior to closing its 2006 books for financial reporting purposes. As a result, the Utah portion of the costs should have been written-off on

253 PacifiCorp's books by the end of 2006 for financial accounting purposes to  
254 comply with GAAP.

255

256 **Q. PLEASE ADDRESS THE SEVERANCE COSTS AND WHEN SUCH**  
257 **COSTS SHOULD HAVE BEEN EXPENSED ON ROCKY MOUNTAIN**  
258 **POWER'S BOOKS.**

259 A. According to the Direct Testimony of RMP witness Jeffrey K. Larsen, the  
260 Company has incurred an additional \$39 million of severance costs above  
261 and beyond the \$6.4 million in severance costs considered in the last rate  
262 case proceeding, Docket No. 06-035-21. These additional costs were  
263 incurred over the period March 21, 2006 through May 2007. Many of  
264 these costs were incurred and known during the Company's fiscal year  
265 ended December 31, 2006. The request for an accounting order seeking  
266 approval to establish a regulatory asset for the severance costs was not  
267 filed by RMP until January 24, 2007. As the Company would not have  
268 been able to make the determination that recovery in future rates of the  
269 severance costs incurred during 2006 is probable, it should have  
270 expensed the costs on its books during 2006. Based on a review of the  
271 Company's latest 10-K filing, it appears the Company did in fact expense  
272 the severance costs on its books during that period. According to the 10-  
273 K, there was a \$26 million increase in O&M expenses resulting from  
274 severance costs in the nine-months ended December 31, 2006 compared  
275 to the nine-months ended December 31, 2005. Based on a recent 10-Q

report, O&M expenses in the six months ended June 30, 2007 included \$9 million of severance costs. Thus, investors have already realized the impact of the severance costs for financial purposes as the amounts have already been expensed on the Company's public financial statements.

**Q. IN HIS TESTIMONY, MR. LARSEN ADDRESSES WHETHER OR NOT THE AMOUNT OF COSTS SHOULD BE CONSIDERED IN DECIDING IF AN ITEM CAN BE DEFERRED. WOULD YOU CARE TO COMMENT ON THIS ISSUE?**

A. Yes. Beginning at page 4 of his testimony, Mr. Larsen indicates that the accounting standards do not require that an expense be material in amount to be considered for deferral and that deferral is "...more dependent upon the extraordinary nature of the event leading to the cost than it is the magnitude of the cost."

Prior to approving a request for an accounting order to defer costs, the Commission, in my opinion, should also take into consideration the magnitude of the costs and other mitigating factors. Costs occurring between rate case proceedings that are not material should, in most instances, not be allowed for deferral. Many events occur in the normal operations of a company that will differ from the costs factored in when rates are set. In setting rates, the Commission will factor in a normal level of expenditures. While the actual expenditures during a rate effective

period may differ from those considered at the time of the case, this does not mean that the Company did not recover its costs during the rate period. This is particularly true in the case of utilities in jurisdictions which employ future test years in setting rates. Future test periods incorporate many projections regarding costs and revenues, and what actually occurs during the period are likely to differ from the forecasted amount. To defer costs that occur between rate cases used in setting rates that do not involve extraordinary events or material amounts would not be good regulatory policy.

If the Commission allows deferral of costs incurred between rate case proceedings that do not have a material impact on the Company, the result would be to shift risk from shareholders to ratepayers. The tendency of the Company will be to request deferral of costs as regulatory assets between rate case proceedings, but not recognize and request deferrals as regulatory liabilities of revenue increases or cost reductions that occur between cases. Because Company management has the fullest knowledge of its books and records, it is less likely that outside parties and customers will be fully aware of cost savings or potentially non-recurring revenues or credits that take place between test periods. In fact, in the current proceeding, the Division of Public Utilities asked the Company (DPU DR 2.2) to provide any refunds or credits that PacifiCorp

received in 2006 or 2007. The response stated: "Rocky Mountain Power objects to this question as being overly broad and ambiguous."

Mitigating Factors

**Q. YOU INDICATED THE COMMISSION SHOULD ALSO TAKE INTO CONSIDERATION POTENTIAL MITIGATING FACTORS IN EVALUATING WHETHER OR NOT TO GRANT A REQUEST FOR AN ACCOUNTING ORDER. ARE THERE MITIGATING FACTORS IN THIS CASE THAT SHOULD BE CONSIDERED BY THE COMMISSION IN EVALUATING THE COMPANY'S REQUESTED DEFERRAL OF GRID WEST LOAN COSTS?**

**A.** Yes. At the time of the last rate case proceeding, and during the settlement discussions in that proceeding, RMP and the parties involved in the case were aware of the default on the loan. In its filing, the Company did not request deferral and amortization in rates of the loans made to Grid West, nor did it include it in the supplemental testimony filed later in the case. The deferral and amortization costs were not provided to the parties during the various settlement negotiations. Additionally, the forecasted test year costs included in the Company's general rate case filing included \$665,492 (Utah basis) of primarily labor costs associated with Grid West. Since Grid West has been dissolved, these costs are no longer being incurred by the Company, but at least a portion of the costs remain in rates.



344

345 **Q. ARE THERE SIGNIFICANT MITIGATING FACTORS THAT SHOULD BE**  
346 **CONSIDERED BY THE COMMISSION IN EVALUATING WHETHER OR**  
347 **NOT TO ALLOW THE COMPANY'S REQUESTED DEFERRAL OF THE**  
348 **SEVERANCE COSTS?**

349 A. Yes. According to Mr. Larsen's testimony (page 15), 270 employees have  
350 been terminated as a result of the severance program, resulting in \$40  
351 million of annual labor cost savings. According to Mr. Larsen, severance  
352 costs for those employees were approximately \$46 million.

353

354 In the prior rate case proceeding, Docket No. 06-035-21, \$6.4 million (\$2.7  
355 million on a Utah basis) of severance costs associated with 29 employees  
356 terminated were included by the Company in calculating its revenue  
357 requirement and were amortized within the request. According to the  
358 Supplemental Direct Testimony of Thomas B. Specketer in the last rate  
359 case, there was also a \$4.8 million (\$2.0 million Utah basis) reduction in  
360 annual labor expense included in the filing associated with the 29  
361 employee reduction. In other words, the annual labor-related expense  
362 associated with the employees being terminated was removed. Thus,  
363 when the Company added the amortization of the proposed severance  
364 cost of \$6.4 million in the prior rate case, it also removed the associated  
365 annual labor costs for those employees being terminated under the  
366 severance program.

367

368 While the Company has requested a regulatory asset be established  
369 related to the additional \$39 million of severance costs not considered in  
370 the last rate case proceeding, it has not likewise requested deferral as a  
371 regulatory liability of the associated annual labor cost savings. Assuming  
372 Mr. Larsen's estimated annual labor costs savings of \$40 million for the  
373 termination of 270 employees is accurate, then an additional annual labor  
374 cost savings of \$35.2 million would result that was not factored into rates  
375 set in the prior case (\$40 million - \$4.8 million factored into case). Under  
376 the stipulation in the prior rate case proceeding, new rates will not go into  
377 effect from a future rate case until August 2008 or later. From the time the  
378 employees were terminated through the date new rates will go into effect  
379 in the next general rate case (August 2008 at the earliest), the cost  
380 savings associated with the severance program will substantially exceed  
381 the severance costs incurred. Assuming the annual cost savings begin at  
382 the mid-point of the severance period, or October 1, 2006 as indicated at  
383 page 18 of Mr. Larsen's direct testimony, and assuming new rates from  
384 the next rate case proceeding go into effect in August 2008, the Company  
385 would have had the benefit of twenty-two (22) months of cost savings.  
386 Based on annual savings not factored into the rate case of \$35.2 million,  
387 the average monthly savings would be approximately \$2.93 million. If one  
388 assumes the twenty-two months of cost savings identified above, the  
389 potential regulatory liability at the time rates from the next case would go

into effect (potentially in August 2008) would be approximately \$64.46 million. This would exceed the \$39 million regulatory asset requested by the Company by about \$25 million.

It would not be appropriate to allow the Company to defer a regulatory asset for the severance costs for consideration in future rates without requiring that the resulting labor cost savings also be deferred as a regulatory liability through the date new rates go into effect. As the regulatory liability would exceed the severance costs incurred, the net impact would actually be a benefit to ratepayers, thus reducing future rates. Clearly, the vast majority of the \$40 million of estimated annual cost savings identified in Mr. Larsen's testimony were not included in the last rate case.

#### **ANALYSIS OF INDIVIDUAL REQUESTS**

**Q. WOULD YOU PLEASE ADDRESS THE COMMITTEE'S POSITION FOR EACH OF THE THREE ACCOUNTING ORDER REQUESTS?**

**A.** Yes. I will address each of the three requests below.

#### **Cost of Loans to Grid West – Docket 06-035-163**

**Q. DOES THE COMMITTEE AGREE THAT THE COMPANY'S REQUEST TO DEFER THE COSTS ASSOCIATED WITH THE LOANS MADE TO GRID WEST SHOULD BE APPROVED?**

412 A. No. The Committee's position is that the request to establish a regulatory  
413 asset for these costs should be denied. There are a number of reasons  
414 that the Company's request to defer the costs as a regulatory asset for  
415 future recovery should be denied, many of which were presented by the  
416 Committee to the parties in its position statement dated June 26, 2007.  
417 The reasons cited within that statement, along with additional reasons  
418 previously cited in this testimony, are included below:

- 419 - The costs the Company is seeking to defer, which are only \$1.1  
420 million on a Utah basis, are not of a material nature and do not  
421 significantly impact the Company's operations. Allowing the  
422 deferral between rate case proceedings for future recovery of a  
423 cost of such a small magnitude, would not be good regulatory  
424 policy and could potentially open the door for the Company to file  
425 numerous future requests for deferrals of regulatory assets, shifting  
426 considerable risk to customers.
- 427 - There was no official Commission approval of the Grid West  
428 funding agreement. The Company voluntarily entered into the  
429 Agreement committing to fund Grid West through loans to be repaid  
430 at a future time with interest. The agreement was amended nine  
431 times over a seven-year period. The Company is now attempting  
432 to shift the burden of its decision to enter into and amend the  
433 agreements, and the responsibility of the loan default, to its  
434 ratepayers.

- 435           -       The Company chose to file its prior rate case using a future test  
436                   year with the full understanding that neither it nor ratepayers can  
437                   predict the future with certainty and that actual costs, revenues and  
438                   capital investments in using a future test period will be based on  
439                   estimates and assumptions, with actual results likely to differ.
- 440           -       It is normally inappropriate for RMP to request recovery of a single  
441                   ratemaking item that happens to differ between rate case  
442                   proceedings.
- 443           -       There are mitigating factors that offset the costs, such as the fact  
444                   that the Company included \$665,492 on a Utah basis in its annual  
445                   expense projections in the prior rate case related to its participation  
446                   in Grid West, which is now defunct. Presumably the Company  
447                   would not now be incurring these costs, and therefore would  
448                   continue to receive some offset to the costs associated with the  
449                   default on the loan until new rates are set.
- 450           -       The Company's Application, at page 3, indicates that one reason  
451                   for deferral of utility expenses is to match costs borne with the  
452                   benefits received. The Company has not demonstrated any benefit  
453                   to customers that match the presumed cost associated with the  
454                   default on the loan.
- 455           -       The Company's request is untimely. As discussed previously in my  
456                   testimony, the Company was aware of the potential for default prior  
457                   to the filing of its application in the prior rate case proceeding, and

knew of the default soon after filing. The Company did not update its schedules or request deferral or consideration during the course of that proceeding or during the associated settlement discussions, despite being fully aware of the issue and filing deferred accounting applications in three other states.

For all of the reasons set forth above, the Committee recommends that the Commission deny RMP's request to defer the \$1.1 million (Utah basis) of loan costs, as well as the Company's request to accrue interest on the unamortized balance.

Request to Defer Severance Costs – Docket No. 07-035-04

**Q. PLEASE BRIEFLY SUMMARIZE RMP'S REQUEST WITH REGARDS TO THE TRANSITION-RELATED SEVERANCE COSTS.**

A. There are two separate components to the Company's request for deferral of employee severance costs associated with the MidAmerican Energy Holdings Company transaction. The first component is the Company is seeking Commission authorization to continue to amortize approximately \$2.7 million (Utah basis) in employee severance costs that were included in the Company's Supplemental testimony and exhibits in the last rate case filing, Docket No. 06-035-21. The Committee does not oppose the Company's request with regards to these severance costs that were

480 considered by the parties in the prior rate case and matched with  
481 associated labor expense savings.

482

483 **Q. WHAT IS THE SECOND COMPONENT OF THE COMPANY'S**  
484 **REQUEST?**

485 A. The Company seeks permission to establish a regulatory asset to defer  
486 severance costs resulting from the workforce reductions that were not  
487 included in the Company's Supplemental Testimony in the previous rate  
488 case filing. RMP requests deferral of an additional \$39 million of  
489 severance costs associated with the termination of an additional 241  
490 employees not factored into the previous rate case filing. These additional  
491 terminations would have occurred between March 21, 2006 and May 23,  
492 2007. It is the Committee's position that this second component should be  
493 denied and that the Company not be permitted to defer these costs on its  
494 books as a regulatory asset. Furthermore, the Company should be  
495 precluded from requesting inclusion of these costs in its next rate case  
496 proceeding.

497

498 **Q. WHY SHOULD THE COMPANY NOT BE ALLOWED TO ESTABLISH A**  
499 **REGULATORY ASSET FOR THESE COSTS AND NOT BE ALLOWED**  
500 **TO SEEK FUTURE RECOVERY OF THESE COSTS IN RATES?**

501 A. RMP should not be allowed to establish a regulatory asset for additional  
502 severance costs for the following reasons:

- 503           -       Allowing the Company to defer these costs for future recovery  
504                    would be the equivalent of single item ratemaking. Many changes  
505                    in the various ratemaking elements occur between rate case  
506                    proceedings. In utilizing a future test year, it is likely that actual  
507                    costs, revenues and investments will not be the same as the  
508                    estimates presented in the case. Some of the differences will favor  
509                    the Company and some of the differences will favor ratepayers. In  
510                    fact, in this instance there are mitigating factors associated with the  
511                    resulting labor cost savings that far outweigh the severance costs  
512                    incurred.
- 513           -       There is a test year cost-benefit mismatch in the prior rate case.  
514                    Specifically, some of these costs and savings relating to severance  
515                    should have been known at the time of the last rate case, yet were  
516                    not presented to the parties.
- 517           -       It is the Committee's position that the Company's deferred  
518                    accounting proposal violates MEHC Merger Commitment No. 22 in  
519                    Docket No. 05-035-54.<sup>1</sup> While on the surface there is no  
520                    immediate and direct impact on rates stemming from the  
521                    Application, the reality is that the Company overstated its labor  
522                    expense in the test year and retains that benefit until August 2008,

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<sup>1</sup> MEHC Commitment No. 22 reads: MEHC and PacifiCorp guarantee that the customers of PacifiCorp will be held harmless if the transaction between MEHC and PacifiCorp results in a higher revenue requirement for PacifiCorp than if the transaction had not occurred; provided, however, that MEHC and PacifiCorp do not intend that this commitment be interpreted to prevent PacifiCorp from recovering prudently incurred costs approved for inclusion in revenue requirement by the Commission.



and additionally would have an opportunity to recover severance costs in a future case if its Application is approved.

- As indicated above, the cost savings from the workforce reduction will more than exceed the severance costs being paid. Based on the amounts presented in Mr. Larsen's testimony, from the time of the mid-point of the severance program through the date new rates will go into effect (August 2008 at the earliest), the cumulative savings to RMP associated with the labor related costs of the employees that were terminated under the severance program will be at least \$64.46 million. These are the portion of the projected savings that were not factored into rates or presented by the Company at the time of the last rate case proceeding. They also do not include additional potential cost savings beyond the labor costs, such as reduced building space needs, reduced rental and vehicle costs, etc. While the deferral of the severance costs should be denied, in the event they are allowed for deferral by the Commission for future consideration, then the substantial cost savings should likewise be deferred as a regulatory liability for future consideration. The impact on ratepayers when new rates are established should be a net benefit as the cumulative savings will substantially exceed the severance costs.

545 For all of the reasons set forth above, the Committee recommends that  
546 the Commission deny RMP's request to defer the additional severance  
547 costs that are not included in current rates. The Committee also  
548 recommends that the Commission at this time preclude the Company from  
549 requesting recovery of the costs at the time of its next rate case  
550 proceeding.

551

552 **Q. WHY SHOULD THE COMPANY BE PRECLUDED FROM REQUESTING**  
553 **INCLUSION OF THESE COSTS IN ITS NEXT RATE CASE**  
554 **PROCEEDING?**

555 A. There is a possibility that the Company will request a future test period in  
556 its next rate case proceeding. In the event the future test period is  
557 requested and is approved by the Commission, the severance program  
558 costs associated with terminating the 270 employees will not recur in the  
559 future test period. Therefore, it would not be appropriate to include the  
560 historical costs for this item in the future test year.

561

562 **Q. WOULD YOUR ANSWER BE THE SAME IF THE COMMISSION**  
563 **ELECTED TO USE EITHER A HISTORICAL (WITH KNOWN AND**  
564 **MEASURABLE CHANGES), OR MIXED TEST PERIOD IN RMP'S NEXT**  
565 **RATE CASE?**

566 A. Regardless of the test period utilized in the next rate case, it would still be  
567 inappropriate to include the severance program costs because the savings

568 associated with the program that currently benefit shareholders until new  
569 rates go into effect will exceed the costs.

570

571 Flooding of Powerdale Hydro Facility – Docket No. 07-035-14

572 **Q. COULD YOU PLEASE BRIEFLY SUMMARIZE THE COMPANY'S**  
573 **REQUEST FOR AN ACCOUNTING ORDER FOR COSTS RELATED TO**  
574 **THE FLOODING OF THE POWERDALE HYDRO FACILITY?**

575 A. The Company has requested an accounting order for costs related to the  
576 flooding of the Powerdale Hydro Facility. RMP seeks an order to: 1)  
577 transfer approximately \$8.9 million in undepreciated net investment, which  
578 is currently being recovered in rates, from Plant in Service to FERC  
579 Account 182.2 – Unrecovered Plant and Regulatory Study Costs; 2)  
580 record \$6.3 million in estimated decommissioning costs in FERC Account  
581 182.2; and 3) establish an amortization period for these amounts.

582

583 **Q. DOES THE COMMITTEE AGREE WITH THE COMPANY'S PROPOSAL**  
584 **TO TRANSFER THE UNDEPRECIATED NET INVESTMENT TO**  
585 **ACCOUNT 182.2 – UNRECOVERED PLANT AND REGULATORY**  
586 **STUDY COSTS?**

587 A. Yes. The Committee agrees that it would be appropriate to allow the  
588 Company to transfer the net book value at the time of transfer to FERC  
589 Account 182.2 – Unrecovered Plant and Regulatory Study Costs.

590

**Q. WHAT IS THE COMPANY'S PROPOSAL REGARDING THE  
AMORTIZATION OF THESE AMOUNTS?**

A. The Company initially proposes to amortize the net book value being transferred at 4.2% in the near term and subsequently requests a change in the rate once new depreciation rates are approved. The Company anticipates requesting a three-year amortization period for the balance of the unrecovered plant in that study.

**Q. DOES THE COMMITTEE AGREE WITH THE COMPANY'S PROPOSAL  
TO AMORTIZE THE AMOUNT TRANSFERRED BY 4.2%?**

A. No, not without modification. The Committee recommends that the amortization be based on the application of the 4.2% annual depreciation rate to the gross plant amount, not the net amount transferred, until the next rate case where the appropriate amortization period for the net book balance remaining at that time can be addressed. The Company is currently recovering depreciation expense on the facility in rates that was determined based on the application of the depreciation rate to the gross plant balance (i.e., amount recorded in Account 101 – plant in service), not the net plant balance. The net plant balance to be transferred would include the offset for accumulated depreciation, resulting in the Company's proposed amortization being less than the depreciation expense currently being recovered in rates for the facility.

**Q. PLEASE ADDRESS THE COMPANY'S REQUEST TO RECORD  
APPROXIMATELY \$6.3 MILLION OF ESTIMATED DECOMMISSIONING  
COSTS IN ACCOUNT 182.2 AND PROPOSED AMORTIZATION OF  
THIS AMOUNT.**

**A.** The Company requested permission to record its estimated decommissioning costs in Account 182.2 and to amortize this amount in rates over a three-year period at the time of the next rate case. The Committee agrees it would be appropriate to record the estimated decommissioning costs in Account 182.2, thereby allowing the Company to avoid writing off the costs on its books at this time. However, the Committee does not agree that the recovery of the estimated decommissioning costs from ratepayers should begin at the time of the next rate case proceeding. Ratepayers should not be responsible for funding these costs until such time as they are actually incurred by RMP.

According to RMP's application and Mr. Larsen's testimony, the Company may not incur decommissioning costs until April 2010. If the Company is permitted to include the amortization of the estimate in rates at the time of its next rate case, assuming new rates go into effect August 2008 and costs begin to be incurred in April 2010, the result would be that customers would begin paying for decommissioning costs 21 months prior to the costs being incurred. Ratepayers should not be required to pre-pay these costs. Rather, the Company should begin to recover the costs after

637 they are actually incurred. This would allow for recovery of actual costs  
638 instead of estimates and would allow for more certainty with regards to  
639 potential offsets to the decommissioning costs prior to the costs being  
640 included in rates.

641

642 **Q. WOULD YOU PLEASE ELABORATE ON THE POTENTIAL OFFSETS**  
643 **TO THE DECOMMISSIONING COSTS?**

644 A. Yes. The Company's analysis of the cost effectiveness of repairing and  
645 operating the facility versus retiring the facility included an assumption that  
646 the maximum estimated property insurance payment of \$745,000 would  
647 be received. Any insurance proceeds received should be used to offset  
648 the decommissioning costs.

649

650 Additionally, the Company will transfer the reusable Powerdale Plant  
651 assets to other Company hydro facilities at their net book value. There  
652 may also be a salvage value for equipment, which has not yet been  
653 determined. The Company has indicated in response to discovery that it  
654 will assign salvage rights to the removal contractor to offset the removal  
655 costs. These offsets have not yet been factored into the estimated  
656 decommissioning costs.

657

In a 2003 settlement agreement<sup>2</sup> pertaining to the operation and decommissioning of the facility, the Company agreed to convey its interest in certain lands to a third party, and those lands have a value. If any proceeds from the sale of lands associated with the facility or surrounding area are received by RMP, those proceeds should be used to offset the decommissioning costs. Additionally, since the Company has agreed to convey certain lands to a third party, any tax benefit derived from the conveyance should also be used to offset the decommissioning costs. In the event any proceeds are received after the unrecovered net plant costs and decommissioning costs are fully recovered, the amounts should still flow back to ratepayers.

Deferral of recovery of the decommissioning costs until after such time the costs are actually incurred would allow for more certainty with regards to potential offsets to the decommissioning costs.

#### **SUMMARY OF RECOMMENDATIONS**

**Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDATIONS?**

A. Yes. First, it is my opinion that the Company's requests with regards to the establishment of regulatory assets for the Grid West loan costs and

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<sup>2</sup> Parties to the settlement agreement include: PacifiCorp, National Marine Fisheries Service, United States Fish and Wildlife Service, Oregon Department of Fish and Wildlife, Oregon Water Resources Department, Oregon Department of Environmental Quality, Confederated Tribes of the Warm Springs Reservation of Oregon, American Rivers, and Hood River Watershed Group.

severance costs do not meet the criteria for the establishment of a regulatory asset. Additionally, the Company's request for the deferral of the Grid West loan costs and severance costs are untimely and there are mitigating factors which would offset some of these costs. The Company's requests to establish regulatory assets for the Grid West loan costs and severance costs should be denied and the Company should be precluded from requesting the severance costs in the next rate case proceeding. If the Commission decides to establish a regulatory asset for severance costs, it should correspondingly establish a regulatory liability for the annual labor cost savings stemming from the severance program.

Regarding the Company's request for an accounting order for costs related to the flooding of the Powerdale hydro facility, the Company's proposal to transfer the undepreciated net investment to Unrecovered Plant and Regulatory Study Costs (Account 182.2) should be granted, with a modification to the amortization requested by the Company. The Company should also be permitted to record the estimated decommissioning costs in Account 182.2, but should not be permitted to begin recovering the costs from ratepayers until they are actually incurred and after the potential offsets are known.

**Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?**

**A. Yes.**